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2004 STRATEGIC BUSINESS PLAN

JULY 1, 2003
THROUGH
JUNE 30, 2004



*Our Mission: Montana's insurance carrier
of choice and industry leader in service.*

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From the President . . .



By any relevant measure, this is a challenging time for workers' compensation insurers. A combination of rising medical costs, decreased investment income, higher reinsurance rates, and increases in claim losses has resulted in declining profits and upward pressure on pricing. In this type of business environment, a competitive state fund must be a stabilizing force in the marketplace. It is of paramount importance to the 40,000+ businesses in Montana that there is a reliable, stable workers' compensation system in place for this essential and mandatory coverage. We are that organization. We understand the critical role we play in the economic and social well being of the citizens of our state. It is a responsibility that we willingly accept, and it's what separates us from the other insurance carriers that operate in Montana.

By focusing our organizations' energy towards a common purpose, we can produce powerful results. At Montana State Fund, we attribute our ongoing success to our strategic planning process. Each and every year we undergo a comprehensive organizational review, looking for improvements and new ways in which we can provide services to our customers. This process is at the very core of who we are as an organization. We know what we want our future to be, and we've identified the steps to get us there. It is incumbent upon any organization to face their challenges with a clear understanding of the tasks at hand, develop a blueprint for improvement, and follow through with well-planned and measurable actions. Montana State Fund consists of 260 dedicated individuals, who work together as a team to achieve positive results.

We recognize that service is only as good as the last customer contact. Through this plan, we will be directing our energies to improve our systems and services throughout the organization, creating an environment in which we maintain consistency in handling policy matters, respond to questions and requests in a timely manner, with a courteous and knowledgeable front line staff that's easily accessible.

Our FY2004 strategic plan builds upon the solid foundation of our previous plans. It identifies areas for improvements in both efficiencies and service, with a concerted effort in reducing operational costs wherever possible. By improving our financial strength and stability, we will continue to deliver the highest quality workers' compensation insurance at competitive prices. Montana State Fund is a dynamic organization that is constantly fine tuning itself. Our vision as an organization is that we are committed to the health and economic prosperity of Montana. We accomplish this by providing superior service and leadership, through caring individuals working in an environment of teamwork, creativity and trust. Moving forward, this vision will be our guide.

Laurence Hubbard
President and Chief Executive Officer

Our five strategic initiatives for fiscal year 2004 are:

- 1. Customer Service and Ease of Doing Business:** Deliver superior service to our internal/external customers through continual refinement of operations services. This includes focusing on effective claims management and responding to customer wants, needs and expectations.
- 2. Organizational Efficiencies:** Provide superior customer service delivery and cost containment by improving operational workflows and processes, and the continuous refinement of MSF customer-oriented structure.
- 3. Internal/External Communications:** Expand upon our long-term corporate communications philosophy so that the MSF vision is reflected in all of our communications and promotional materials while ensuring that the needs, wants and expectations of MSF customers and employees are identified and addressed.
- 4. Information Technology:** Provide additional business functionality, create efficiencies, and reduce cost of business for our customers and ourselves. Replace/renovate proprietary systems and add new systems with "Value Edge" software and hardware packages within a defined architecture.
- 5. Montana's Workers' Compensation System:** Support Montana's long-term economic prosperity by proactively contributing through education to create a workers' compensation environment that meets the needs of Montana businesses and their employees.

- **Strong Financial Position**

Maintain adequate rate levels, financial strength and stability. A strong financial position ensures continued long-term stability and financial solvency based on actuarial sound rates and reserves.

- **Offer Quality & Competitive Insurance Service and Products**

Deliver high quality insurance products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. In doing so, MSF basically functions as a private insurer asserting its competitiveness within the framework of maintaining a healthy financial position, and competitively priced products based on actuarially sound rates.

- **Employee Growth and Development**

Support a performance driven culture and a work environment that is conducive to the continuing development and growth of our employees. Foster a customer-focused, team-oriented, high-performance environment that rewards, satisfies, empowers and challenges our employees.



Strategic Key Success Measures

The following objectives are the corporate level key success measures that will be used to measure strategic and financial success for fiscal year 2004. They are measurable in terms of time, quality, quantity, and/or dollars.



FY 2004 Strategic Success Measures

1. Achieve targeted fiscal year **Net Operating Income** before dividend for FY 2004 of **\$8.0** million.
2. Focus on Montana State Fund's "strategic initiatives" by meeting our measurable goals.
3. Maximize policyholder satisfaction by achieving a level of **Business Retention** of **91.5%**.
4. Maintain an **Expense Ratio** of **31% or less**.
5. Achieve 4-year accident year **Combined Ratio** target of **117.8%**.



Financial Projections

PROJECTED RESULTS OF OPERATIONS MONTANA STATE FUND

Statutory Basis

Operating Statement

	(numbers expressed in thousands)				
	Actual	Best Estimate			
	2002	2003	2004	2005	2006
Premium Income	\$92,972	\$111,000	\$126,004	\$129,342	\$133,050
Investment & Other Income	33,430	28,414	28,947	29,528	31,314
Total Losses and Expenses	(114,608)	(150,950)	(146,884)	(146,363)	(151,138)
Policyholder Dividend	(4,001)	(3,000)	TBD	TBD	TBD
Net Income	\$7,793	(\$14,536)	\$8,067	\$12,507	\$13,226

TBD - Future dividends to be determined by the Board of Directors.

Premium to Surplus Ratio (X:1) (a)	0.57	0.76	0.83	0.79	0.75
Loss Reserve to Surplus Ratio (X:1) (a)	2.13	2.63	2.64	2.60	2.56
FY Combined Ratio (Loss + LAE + UW)	123.3%	136.0%	116.57%	113.16%	113.59%
Dividend to Premium Ratio	4.3%	2.7%	TBD	TBD	TBD

Balance Sheet

Total Assets	\$574,924	\$599,109	\$641,960	\$681,815	\$721,332
Unpaid Losses and Loss Adjustment Expenses	\$346,400	\$385,000	\$399,972	\$427,495	\$453,924
Other Liabilities	70,025	70,555	90,367	90,193	90,055
Total Liabilities	\$416,425	\$455,555	\$490,339	\$517,688	\$543,979
Surplus (b)	\$158,499	\$143,554	\$151,621	\$164,127	\$177,353
Total Liabilities and Surplus	\$574,924	\$599,109	\$641,960	\$681,815	\$721,332

(a) Ratios prior to any dividend declared by the Board of Directors.

(b) FY02 Surplus amounts include funds from the Old Fund in excess of the 10% loss contingency as required in 39-71-2352 (5), MCA.

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